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FEDERAL COMMUNICATIONS COMMISSION
Office of Secretary

TAB 16

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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

Federal Communications Commission
Office of Secretary

Application of SBC Communications, Inc.,)
Southwestern Bell Telephone Company, and)
Southwestern Bell Communications Services,)
Inc., d/b/a Southwestern Bell Long Distance,) Docket No.
Pursuant to Section 271 of the Telecommuni-)
cations Act of 1996 to Provide In-Region)
Originating InterLATA Services in Oklahoma)

AFFIDAVIT OF KATHLEEN LARKIN

STATE OF TEXAS)
) SS
COUNTY OF DALLAS)

I, Kathleen Larkin, being duly sworn upon oath, do hereby depose and state as follows:

A. AFFIANT'S BACKGROUND AND DUTIES

1. My name is Kathleen Larkin. I am District Manager-Regulatory Issues for SBC Telecommunications, Inc., a wholly owned subsidiary of SBC Communications Inc. (SBC). This position includes responsibility for Southwestern Bell Telephone Company (SWBT), Pacific Bell (Pacific) and Nevada Bell (Nevada) regulatory issues. SWBT is a Bell Operating Company (BOC), as defined in Section 3(4) of the Communications Act of 1934, as amended by the Telecommunications Act of 1996 (the 1996 Act.) SWBT is an incumbent local exchange carrier within its operating areas in Arkansas, Kansas, Missouri, Oklahoma and Texas. Pacific Bell and Nevada Bell are also incumbent local exchange carriers within their operating areas of California and Nevada. Southwestern Bell Communications Services, Inc., d/b/a Southwestern Bell Long Distance (SBLD)

DRAFT

and Pacific Bell Communications Services (PBCom) are affiliates through which SBC will provide in-region InterLATA services under the 1996 Act.

2. As a District Manager of SBC Telecommunications, Inc. , I am responsible for regulatory compliance and public policy analysis, particularly with regard to accounting issues. My responsibilities include regulatory compliance and planning, and affiliated interest matters and audits¹.

3. EDUCATIONAL BACKGROUND

I earned a Bachelor of Arts Degree from Texas Christian University in 1972. Since that time I have regularly attended seminars and workshops relating to accounting and regulatory issues and management information systems development.

4. WORK EXPERIENCE

- a. I was hired by Southwestern Bell Telephone Company in December of 1972 as an Accounting Office Supervisor responsible for payroll operations. I have held various accounting operations supervisory positions in property and cost, customer billing, and toll. In addition, I have held various supervisory positions in data center operations.
- b. From 1977 through 1987, I had specific programming and accounting procedures responsibilities at General Headquarters in St. Louis. These responsibilities were primarily with regard to accounting for property and cost, which included plant and engineering labor, continuing property records, and numerous supporting computer

¹ In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, First Report and Order, CC Docket No. 96-149, FCC 96-489 (rel. Dec. 24, 1996). Non-Accounting Safeguards First Report and Order; In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996, Report and

DRAFT

systems, including the primary property and cost systems. During this time I also had responsibility for Computer Inquiry II and Divestiture accounting issues, particularly the assignment of assets.

- c. In 1987, I was appointed District Manager-Corporate Methods and had overall responsibility for all property and cost accounting procedures and system definition and design, and the system definition and design responsibility for the corporate financial and budget systems. This has included the Project Management of the conversion from Part 31 to the Part 32 FCC chart of accounts, as well as Part 32 Cost Allocation manual development responsibilities.
- d. I currently, as District Manager-Regulatory Issues, have the responsibility for the oversight of affiliate transactions affecting SWBT, Pacific, and Nevada which includes the documentation of the appropriate actions to be taken on affiliate transaction issues, contract administration/classification, affiliate services contract development, tracking and billing, and compliance with the FCC rules and regulations related to these transactions. I regularly consult with other subsidiaries involved in the purchase and sale of affiliate products and services in the execution of these responsibilities.

B. PURPOSE OF AFFIDAVIT

- 5. This affidavit demonstrates that SWBT, Pacific, and Nevada (the Telcos) comply with the FCC accounting safeguards as promulgated in the Accounting Safeguards Report and Order, Appendix B, Final Rules, Part 32, Section 32.27, and will comply with the FCC's

DRAFT

transactional rules, to the extent the Telcos become subject to the requirements of Section 272, in their relationship with SBLD and in their relationship with PBCom.

C. THE TELCOS WILL COMPLY WITH THE ACCOUNTING REQUIREMENTS AND ACCOUNT FOR AFFILIATE TRANSACTIONS AS REQUIRED

6. The Telcos currently maintain books, records, and accounts that are separate from the books, records, and accounts of SBLD and PBCom, consistent with Section 272(b)(2) of the 1996 Act. The Telcos have and will continue to account for all transactions between the Telcos and SBLD and PBCom in accordance with all applicable requirements of Parts 32 and 64 of the FCC's accounting rules, as modified by the rules adopted by the FCC in the Accounting Safeguards Report and Order, Appendix B, as would be required by Section 272(c)(2) of the 1996 Act.
7. All of the services that the Telcos have provided to SBLD and PBCom have been recorded on a basis consistent with Parts 32 and 64 of the FCC's rules, and have been reduced to writing and accounted for in accordance with the rules adopted by the FCC in the Accounting Safeguards Report and Order, Appendix B. SBLD's and PBCom's capital and expense budgets are separate from those of the Telcos.
8. The written agreements between the Telcos, PBCom, and SBLD are on file and available for public inspection in our Washington Office at 1401 I St. N. W. Suite 1100 during normal business hours as would be required by Section 272(b)(5) of the 1996 Act.

D. THE TELCOS WILL PARTICIPATE IN THE BIENNIAL AUDIT

DRAFT

9. Where subject to Section 272, the Telcos² will coordinate, obtain, and pay for a joint Federal/State audit, together with SBLD and PBCom, every two years. The audit will be conducted by an independent auditor to verify compliance with the requirements of Section 272 and the FCC's regulations promulgated thereunder, including the separate accounting requirements under Section 272(b). The first such audit will begin at the close of the first full year of operations. The independent auditor will be selected in accordance with the FCC's requirements specified in the Accounting Safeguards Report and Order and Sections 53.209 and 53.211 of the Commission's rules. The Telcos will coordinate with the Federal/State joint audit team, as described in Section 53.209(d) of the Commission's rules. The Telcos' letter of engagement with the independent auditor will require that the audit be performed consistent with all applicable regulatory requirements, including the specific requirements described in Section 53.209(b) of the Commission's rules. The Telcos will comply with the procedures described in Section 53.211 and 53.213 of the Commission's rules.
10. The Telcos will require the independent auditor to submit the results of the audit in accordance with the requirements of section 53.213 of the Commission's rules.
11. The Telcos, together with their affiliates, including SBLD, PBCom, and SBC, will provide the independent auditor, the FCC, and Oklahoma Corporation Commission and other applicable state commissions with access to financial records and accounts necessary to verify compliance with Section 272 and the regulations promulgated thereunder.

² SWBT, Pacific and Nevada will act separately or in conjunction with each other, as required, in the Biennial Review.

DRAFT

12. The Telcos will require the independent auditor to provide the FCC and OCC with access to working papers and supporting materials relating to this audit consistent with Section 53.213(a)(1) of the FCC's rules and consistent with the proprietary information concerns set forth in the Accounting Safeguards Report and Order.

E. SWBT HAS MECHANISMS IN PLACE TO ASSURE COMPLIANCE WITH SECTION 272 AND THE FCC'S RULES

13. There is a centralized Affiliate Oversight Group in the Regulatory and External Affairs Organization, over which I am the District Manager, that has primary responsibility for the application of the accounting safeguards (state and federal) associated with SWBT, Pacific and Nevada sales to and purchases from affiliated companies. This includes the responsibility for:

- a. Operating Practice 125 and operating policy and documentation for all affiliate transactions (see Attachment 1A for a copy of OP125) ³
- b. Contract oversight for affiliate transactions;
- c. Telco affiliate-only⁴ services contracting, pricing, and billing;
- d. Compliance review for SWBT and Pacific purchases from affiliates; Compliance with the FCC and state Cost Allocation requirements for affiliates.

³ OP125 is published on-line for automatic employee access and can be received in a paper format. On-line access allows for efficient and effective mass distribution of the procedure and policy information, and allows for automatic word or subject search capabilities.

⁴ Should any of the administrative services that have been traditionally provided only to affiliated companies be provided to a potential Section 272 affiliate, SWBT will comply with the nondiscrimination requirements of Section 272 .

DRAFT

- e. Merging Pacific and Nevada Corporate Principle 80 (see Attachment 1B) with Operating Practice 125 to develop one comprehensive document for affiliated services provided from or received by the regulated telephone companies.

F. CONTRACT OVERSIGHT FOR AFFILIATE TRANSACTIONS

- 14. As stated above, the centralized Affiliate Oversight Group has the responsibility for OP125 and all aspects of compliance with applicable Federal and State rules, as described in the preceding paragraphs. Additionally, this group has responsibility for contract oversight for affiliate transactions. The centralization of contract oversight for affiliate transactions provides for the consistent and timely execution of policies and procedures involving affiliate transaction safeguards. The oversight function begins as early as the service classification process as described in Section 5.0 of OP125. All contracts for services from SWBT's Section 272 affiliates will be reviewed by and retained by the Affiliate Oversight Group.

G. CONTRACTING, PRICING, AND BILLING OF SWBT AFFILIATE-ONLY TRANSACTIONS

- 15. As stated in paragraph 13 of this affidavit, the centralized Affiliate Oversight Group has responsibility for the contracting, pricing, and billing of the Telcos' services to and from affiliates. Centralization of this function ensures that all requirements of the affiliate transaction guidelines are incorporated into daily operations. Attachment 2 contains the affiliate oversight letter that was sent to all SWBT organizations. This letter describes the new requirements of CC Docket Nos. 96-149 and 96-150.

DRAFT

16. Attachment 3 contains the updated Temporary Services Guide. This Guide is used to provide employee guidance in the proper method of reporting affiliate services that are of a short duration or unique nature that does not warrant a long-term agreement for recurring services. This Guide has been updated to reflect both the requirements of Section 272 and CC Docket No. 96-150 and will be utilized by the Telcos.
17. Attachment 4 of this affidavit provides information relating to affiliate contracts between SWBT, SBLD and PBCom. Attachment 4A contains copies of all SWBT affiliate contracts with SBLD and Attachment 4B contains those documents with PBCom. These contracts describe the nature of the service, the price of each transaction, the effective date, and any additional terms and conditions for providing the service.
18. Attachment 4C contains a matrix that summarizes the contract data by type of service, description of service, effective date of the contracts, whether or not the service is currently provided by SWBT, and the cancellation date of the service, if applicable.
19. Attachment 5 of this affidavit provides information relating to affiliate contracts between Pacific and PBCom and between Nevada and PBCom. Attachment 5A includes copies of all Pacific contracts with PBCom. These contracts describe the nature of the service, the pricing mechanism of each transaction, the effective date, and any additional terms and conditions for providing the service⁵.
20. Attachment 5B contains a matrix that summarizes the contract data by type of service, description of service, effective date of the contracts, whether or not the service is currently provided by Pacific, and the cancellation date of the service, if applicable.

⁵ Specific prices for active Nontariffed services provided by Pacific to PBCom are contained in the affidavit of John Lube.

DRAFT

21. Attachment 5C contains a copy of the Nevada affiliate contract with PBCom. The contract describes the nature of the service, the pricing mechanism of each transaction, the effective date, and any additional terms and conditions of providing the service. Attachment 5D is a matrix that summarizes the contract data by type of service, description of service, effective date of the contract, whether or not the service is currently provided by Nevada, and the cancellation date of the service, if applicable.
22. There is also a Section 272 Oversight Team comprised of regulatory, centralized affiliate oversight group, legal and operations managers responsible for Section 272 compliance. The purpose of this group is to review proposed relationships or issues between the Telcos and SBLD and PBCom or any future 272 affiliate. Attachment 6 provides the officer letter issued to establish this group and the reporting and review requirements. This review process and the centralization of affiliate contracting and oversight helps ensure compliance in the Telcos.⁶
23. The audit trail associated with the sale of affiliate-only service by the Telcos begins with the contract for the service. This contract includes the price for the services established by the centralized affiliate oversight group in compliance with FCC and state rules and regulations. The price is established by unit of measurement for the service (per hour, per activity, etc.). These services are not tariffed or prevailing, except when established as prevailing under the nondiscriminatory provisions of the FCC Accounting Safeguards Report and Order (CC Docket 96-150). Therefore the unit price is established as the

⁶ As indicated in the affidavit of Kathy Rehmer, the Telcos also have an account team which services SBLD and PBCom in the same manner as other Telco account teams service other inter-exchange carriers.

DRAFT

higher of the fully distributed cost study or estimated fair market value. The result of this comparison can be tracked directly to the contract.

24. Billing is the next stop in the audit trail. This includes documented input from the service provider that identifies the units of service provided during a given month. (Attachment 7 contains the current 1997 version of the Contract Coordinator Billing Guidelines.)
25. By maintaining an audit trail that runs from unit cost to unit billing the Telcos can show the appropriateness of all of its outbound affiliate-only services whether the affiliate buyer is a Section 272 affiliate or any other affiliated company. This process for providing services to affiliates has been extensively audited by Federal, State, internal and external auditors.

P. COMPLIANCE REVIEW FOR SWBT PURCHASES FROM AFFILIATES AND COMPLIANCE WITH THE FCC COST ALLOCATION REQUIREMENTS FOR AFFILIATE TRANSACTIONS

27. Compliance review of SWBT purchases from affiliates is a function performed by the Affiliate Oversight Group. These compliance reviews have the goal of ensuring that the Telcos' purchases of assets or services from affiliated companies comply with the affiliate transaction guidelines and those revisions contained in CC Docket No. 96-150. This compliance review process has been in place since CC Docket No. 86-111 and the advent of non-structural safeguards. SWBT's compliance review process will not change as a result of Section 271 and Section 272 requirements. SWBT will continue to perform these reviews to ensure proper accounting treatment of SWBT's purchases from affiliated companies, and will include Section 272 affiliates in the process.

DRAFT

28. The Affiliate Oversight Group performs compliance reviews on affiliate allocations to SWBT to ensure that affiliate transactions billed to SWBT meet and comply with the requirements of the FCC cost allocation rules. The procedure of conducting a compliance review has been developed internally for assuring that affiliates are supporting SWBT efforts to comply with the FCC rules for recording affiliate transactions. SWBT incorporates into each contract or agreement with affiliates the right to inspect and audit charges invoiced to SWBT. Then SWBT reviews the affiliate's methods, procedures, books and supporting records (such as the review of input, time reporting, factor calculations and computation results for the SBC parent allocation).
29. Affiliate contracts are required pursuant to established procedures and are forwarded to the Affiliate Oversight Group. A review of the service by the Section 272 Oversight Team will take place prior to the execution of the contract when a 272 affiliate is involved. The main strength to this process is the consolidation of the policy, oversight and compliance process within one group at SWBT.
30. Corporate Principle 80 for Pacific and Nevada will be merged with the SWBT Compliance review process. Pacific and Nevada have had extensive internal and external audit review of affiliate transactions.
31. Because the oversight function is centralized, the need for training on how to price services and record revenues at the Telcos for services provided to any affiliate, including an affiliate that may enter a line of business covered in Section 272, is limited to the Affiliate Oversight Group itself. The 1996 Act, the rulings in CC Docket Nos. 96-149 and 96-150 provide guidance on how these processes are to function. Likewise, since members of the Affiliate Oversight Group are on the SBC 272 Oversight Team that

DRAFT

reviews all new requests for services to or from the Telcos, this allows legal and regulatory knowledge to be centralized and consistently applied. The SBC 272 Oversight Team meets on a weekly or ad hoc basis and acts as a gatekeeper for information and oversight of the affiliate relationships between the Telcos and any Section 272 affiliate.

32. Attachment 8 are two examples of SWBT letters implementing the Section 272 requirements and an example of the Pacific affiliate services certification process:

- a. Advice on a change in the affiliate transaction accounting safeguards (dated January 31, 1997), and:
- b. Letter of Certification (example date February 26, 1997).

The foregoing affidavit is true and correct to the best of my knowledge, information, and belief.

This concludes my Affidavit.

KATHLEEN LARKIN
DISTRICT MANAGER-STATE REGULATORY ISSUES
SOUTHWESTERN BELL TELEPHONE COMPANY

STATE OF TEXAS)
) ss.
CITY OF DALLAS)

Subscribed and sworn before me, the undersigned authority, on this _____ day of _____, 1998.

NOTARY PUBLIC

Index of Attachments

1. Operating Practices
 - A. Operating Practice 125
 - B. Corporate Principle 80
2. Letter Disseminating CC Docket Nos. 96-149 and 96-150 requirements
3. Temporary Project Guidelines
4. SWBT Contracts with SBLD and PBCom
 - A. SWBT to SBLD – General Services Agreement 950300
 1. Schedule 002 – Human Resource Support
 2. Schedule 005 – Nonmanagement Employment
 3. Schedule 017 – Official Communications
 4. Schedule 025 – Real Estate Management
 5. Schedule 026 – Temporary Project
 6. Schedule 037 – InterLATA Communications
 7. Schedule 039 – Purchasing and Contracting
 8. Schedule 047 – Revenue and Public Affairs
 9. Schedule 084 – Bellcore Support
 10. Schedule 110 – Fulfillment Services
 11. Schedule 117 – General Ledger Support
 12. Schedule 118 – Accounts Payable
 13. Schedule 119 – Budget Analysis
 14. Letter of agreement – Schedule 042 – Legal Services
 15. Letter of agreement – Schedule 053 – Property Tax Services
 16. Agreement No. 960418 – Carrier Toll Data Report Agreement
 17. Agreement No. SC95014100 – Agreement for Engineering, Installation and Maintenance Services
 18. Memorandum of Understanding – Billing and Collections
 19. Central Office Lease Agreement
 20. Account Maintenance Agreement
 21. General agreement for Support Services CGA 967076
 22. Support Services Order 901 – Technical Personnel
 23. Support Services Order 902 – Data Processing
 24. Memorandum of Understanding – Network Management Bureau Services
 25. Support services Order 912 – Network Management Bureau Services
 26. Schedule 015 – Administrative Services
 27. Schedule 041 – Marketing Research Analysis
 28. Schedule 080 – Information Research Center Services
 29. SWBT Purchase of Material Assets From SBCS
 - B. SWBT to PBCom – General services Agreement 979943
 1. Schedule 018 – Treasury Services
 2. Schedule 117 – General Ledger Support
 3. Schedule 118 – Accounts Payable Support
 - C. Matrix of SWBT services to SBLD and PBCom
5. Pacific Contracts with PBCom
 - A. Agreement between Pacific and PBCom for General Administrative Services
 1. Schedule TC-01-002 – Centralized Distribution Center
 2. Schedule TC-15-005 – Mail and Messenger Services

3. Schedule TC-01-006 – Information Directory
4. Schedule TC-09-011 – Consulting services – IS Development
5. Schedule TC- 09 – 035 – Computer Security
6. Schedule TC – 09 – 036 Datacommunications Services
7. Schedule TC – 09 – 056 – Project Management Services
8. Schedule TC – 29 – 013 – Consulting Services – Sales Support
9. Schedule TC – 09 – 058 – Computer Operations and Programming
10. Schedule TC – 09 – 053 – Data Center Operations Systems Support and Planning Services
11. Schedule TC – 08 – 046 – Humans Resources Consultation Services
12. Schedule TC – 09 – 055 – Standard Desktop Consulting Services
13. Schedule TC – 14 – 041 – Corporate Intelligence Center Services
14. Schedule TC – 15 – 043 – Warehousing services
15. Schedule TC – 15 – 052 – General Contracting Services
16. Schedule TC – 16 – 047 – Property Management Consulting Services
17. Schedule TC – 16 – 049 – Property Management Facility and Site Management
18. Schedule TC – 29 – 051 – CIC Identification Services
19. Schedule TC – 32 – 038 – Engineering Services
20. Schedule TC – 32 – 040 – PBNET – Collocated Employees Services
21. Schedule TC – 32 – 057 – Statewide Line Engineering Consulting Services
22. Schedule TC – 62 – 039 – Central Office Collocation (DC Power) Services
23. Schedule TC – 62 – 044 – Internal Telecommunication Services (ITS)
24. Schedule TC – 64 – 042 – Contracting, Engineering and Purchasing services
25. Schedule PB-01-001 – Employee Under Contract From PBCom
26. Schedule PB-01-002 – Employee Under Contract From PBCom
27. Schedule PB-01-003 – Employee Under Contract From PBCom
28. Schedule PB-01-004 – Employee Under Contract From PBCom
29. Schedule PB-01-005 – Employee Under Contract From PBCom
30. Schedule PB-01-006 – Employee Under Contract From PBCom
31. Schedule PB-01-008 – Employee Under Contract From PBCom
32. Schedule PB-01-07 – Employee Under Contract From PBCom

B. Matrix of Pacific Services to PBCom

C. Schedule PBC-01-001 – Marketing Operations and Strategic Planning Services

D. Matrix of Service Provided by Nevada to PBCom

6. Letter Establishing SBC 272 Oversight Team
7. Contract Coordinator Billing Guidelines
8. Implementation Letters
 - A. Change in Accounting Safeguards
 - B. Letter of Certification

Attachment 1

Attachment 1.A

Operating Practice 125
June 1997

SOUTHWESTERN BELL TELEPHONE COMPANY

**Operating Practice: Nontariffed Activities and
Affiliate Transactions**

This practice establishes policy and procedures for all departments of Southwestern Bell Telephone to follow for contracts that involve nontariffed activities provided to outside entities and for all contracts with affiliates. This practice has been reissued in its entirety primarily to reflect modifications required to implement revised FCC rules issued in response to the Telecommunications Act of 1996.

**Sponsor:
Dale R. Kaeshoefer
Managing Director-Regulatory
& External Affairs**

**Contact:
Brad Young
314-235-4887**

<u>SECTION</u>	<u>SUBJECT</u>	<u>PAGE</u>	<u>DATE</u>
1.0	GENERAL	1-2	June 1997
2.0	PURPOSE.....	1	June 1997
3.0	DEFINITIONS.....	1-6	June 1997
4.0	REGULATORY REQUIREMENTS	1-2	June 1997
5.0	SERVICE CLASSIFICATION PROCESS FOR SALES TO AFFILIATES	1-2	June 1997
6.0	REGULATED NONTARIFF CONTRACT CLASSIFICATION	1-7	June 1997
7.0	INCIDENTAL ACTIVITIES CONTRACT CLASSIFICATION	1-7	June 1997
8.0	NONREGULATED CONTRACT CLASSIFICATION.....	1-7	June 1997
9.0	AFFILIATE TRANSACTION RULES	1-2	June 1997
10.0	SALES OF ASSETS TO AFFILIATES.....	1-2	June 1997
11.0	PURCHASES FROM AFFILIATES	1-3	June 1997
12.0	OTHER OCCASIONAL ASSET PURCHASES FROM AFFILIATES	1-2	June 1997
13.0	AFFILIATE SERVICES.....	1-5	June 1997

PROPRIETARY

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Telephone Company except under written agreement.

<u>EXHIBIT</u>	<u>TITLE</u>	<u>PAGE</u>	<u>DATE</u>
A	Form SW-1161, Contract Classification ..	1-2	June 1997
B	Letter of Notification Example.....	1	June 1997

ATTACHMENTS

1	Preparation of Form SW-1161 and Preliminary Letter of Notification.....	1-5	June 1997
2	Contract Coordinator-Primary Contact	1	June 1997
3	Other Departmental Contacts.....	1-2	June 1997
4	List of Incidental Activities Contacts	1-3	June 1997
5	Affiliate Billing Contract Administrators Guide Table of Contents	1 1-27	June 1997 June 1997
6	Affiliate Purchase Contract Clause.....	1	June 1997
7	Flow Chart for the Sale of Affiliate Services.....	1	June 1997
8	Overview of CC Docket 96-149 Non-Accounting Safeguards	1	June 1997
	(272 Affiliate Relationships)		

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1.0 GENERAL

- 1.1** Prior to 1984, Southwestern Bell Telephone (SWBT) provided nearly all of its services under tariffs instead of contracts. Those contracts that existed were outgrowths of our regulated telephone business and were considered to be incidental to our business.
- 1.2** Since divestiture, contracts are being used more frequently for regulated, incidental and nonregulated business activities due to the rapidly changing regulatory environment.
- 1.3** The Federal Communications Commission (FCC) has established a method for separating the cost of carriers' nonregulated activities from the costs of regulated telephone operations and adopted rules governing transactions between regulated and nonregulated operations, including rules for transactions with nonregulated affiliates. *Further, as a result of the Telecommunications Act of 1996, structural and transactional requirements as well as nondiscrimination safeguards have been established that govern the relationships between SWBT, other affiliates and Section 272 InterLATA affiliates.*
- 1.4** Southwestern Bell files an annual Cost Allocation Manual (CAM) in response to the FCC requirements. The CAM contains sections that list SWBT involvement in incidental activities, nonregulated activities and affiliate transactions. In addition, the CAM discusses cost accounting concepts, time reporting and defines the cost pools matrix which contains methods and procedures for apportioning common investment and expense costs to regulated and nonregulated activities.
- 1.5** In general, incidental activities do not require cost identification and tracking. However, the revenues must be identified, tracked and reported on an annual basis to ensure compliance with the one percent revenue limitation established by the FCC for incidental activities.
- 1.6** Nonregulated activities require cost identification and tracking to ensure that the costs may be captured in the cost pools for the Cost Allocation System (CAS) process which apportions costs between regulated and nonregulated activities. The CAS process apportions costs so that all nonregulated costs are removed prior to the Separations process.

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